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DEPARTMENT OF ENERGY PASS TO SECRETARY BODMAN  
DEPARTMENT PASS TO DEPARTMENT OF ENERGY A/S HARBERT

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TAGS: [ECON](#) [ENRG](#) [EPRT](#) [PREL](#) [PGOV](#) [IT](#)  
SUBJECT: SCENESETTER FOR ENERGY SECRETARY BODMAN'S NOVEMBER  
13-14 MEETINGS IN ROME

Classified By: Ecmin Tom Delare for reasons 1.4 (b) and (d)

POLITICAL BACKDROP  
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¶1. (C/NF) As you visit Italy, the Italian government will be once again dealing with the instability that has characterized political life here during most the post-war period. The coalition government of Romano Prodi holds on to power in Italy's parliamentary system by a very thin margin. The government is in fact a coalition that includes many small parties, several of which are on the far left of the Italian political spectrum. The loss of support of one or more of these parties could result in a vote of no-confidence and the fall of the government. Obviously the need to keep all these small parties happy makes government action quite difficult. Many here (including former Prime Minister Silvio Berlusconi) believe that the Prodi government's fall from power is imminent, and may occur in mid-November. The parliament is currently focused on the government budget bill. Key votes will be held next week. There is a chance that these votes could bring the government down, but this week the government appears to have enough support to survive. If the government does fall, it could be replaced by a temporary caretaker government, or the Italian President could call for new elections. (The only portion of your schedule that would be affected by a government crisis would obviously be your call on Minister Bersani.)

Italian Energy and Energy Security Policy  
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¶2. (U) Since 2005, the GOI has sought to increase the use of natural gas to meet Italy's winter heating needs. This policy was driven by the desire to minimize exposure to high oil prices and to lower Italian carbon dioxide emission in order to comply with Italy's Kyoto Protocol obligations. Over one million homes have been switched from oil to natural gas heating. The GOI has also increased the use of natural gas in power generation -- in the summer of 2005 alone, 6,000 megawatt hours (MwH) of natural gas-fired plants came on-line. An additional 15,000 MwH of natural gas-fired power plants are under construction, with an additional 9,000 MwH authorized. The potential for wind and solar energy in Italy is limited due to the lack of available land for solar installation and irregular winds.

¶3. (U) Italian energy security policy has two goals: (i) increasing Italian access to existing natural gas sources by constructing new natural gas pipelines, and (ii) encouraging the formation of a common EU energy policy.

14. (U) After natural gas shortages in January 2006, caused by Gazprom's decision to cut off gas exports via pipelines transiting Ukraine, the GOI has supported construction of pipelines linking Italy to natural gas fields in Russia, Algeria, and the Caspian Basin. Ministry of Foreign Affairs officials have said the GOI will support "any project that will bring natural gas to Italy." Most recently, GOI efforts helped ensure EU approval of the Turkey-Greece-Italy (TGI) pipeline, which will connect Italian gas consumers to natural gas fields in Azerbaijan. The GOI has also offered rhetorical support for the construction of LNG regasification facilities, but has not intervened forcefully to help gas companies, including ExxonMobil and British Gas, overcome opposition at the regional and city/town levels.

15. (U) The GOI also supports formulation of an EU energy policy, as it sees a unified EU position on energy as a counterweight to Gazprom's dominance of the EU natural gas market. Gazprom supplies 24% of EU's the natural gas supplies. Discussions of an EU energy policy have begun in Brussels, but have not made much progress. Among the issues that will have to be decided upon is the role of nuclear power, which advocates tout as a "zero emissions" power source insofar as carbon dioxide is concerned. Opponents of nuclear energy argue that the question of nuclear waste disposal must be addressed before nuclear energy production in Europe is expanded.

Your Meeting with Minister of Productive Activities Bersani  
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16. (U) Your meeting the afternoon on November 13 with Economic Development Minister Pierluigi Bersani will be your only meeting with the Italian government during your time in Rome. Because of the weakness of the center-left coalition, high-level meetings such as yours are essential to shoring up GOI support for initiatives such as the Global Nuclear Energy Partnership (GNEP). Bersani will sign the GNEP Statement of Principles during your meeting.

17. (U) Bersani is involved in the newly formed Democratic Party, the largest political party in Prodi's coalition. Bersani previously served as Minister of Industry from 1996 to 1999, during the previous Prodi and D'Alema (now Deputy Prime Minister and Foreign Minister) governments. As Minister of Industry, Bersani was responsible for passing legislation that forced ENEL, the Italian electricity parastatal, to use electricity-generating subsidiaries, thus opening up the Italian electricity sector to competition.

18. (U) As Minister of Economic Development, Bersani has spoken out in favor of construction of additional LNG regasification facilities, which he sees as central to efforts to improve the diversity of Italy's natural gas supplies. He has also spoken out in support of Italian participation in nuclear power research, but has stopped short of endorsing the resumption of nuclear power generation in Italy, which was halted following a 1987 referendum. Bersani's efforts regarding LNG facilities have been halted by environmental interests within the Prodi government, including parliamentarians belonging to the Green Party, and local "not in my backyard" opposition. Because of the governing coalition's one-vote majority in the Senate, this opposition has political clout disproportionate to its actual numbers, and is exceedingly difficult to overcome.

19. (U) ExxonMobil's efforts to build an LNG regasification facility near Rovigo (on Italy's Adriatic Coast near Venice) illustrates the opposition that energy infrastructure projects can face here. ExxonMobil's project, in which Edison Italia and Qatar Gas are investors, has been delayed for almost a decade by local opposition and regulatory changes.

Your Breakfast with Edison Italia Senior Executives  
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110. (U) You will have breakfast the morning of November 14

with the Umberto Quadrino, CEO of Edison Italia, and Edison Vice president Roberto Poti. Edison is partially owned by Gaz de France and is a key investor in three projects which will enhance Italy's energy security by introducing new sources and routes for natural gas to the Italian market: the Turkey-Greece-Italy (TGI) natural gas pipeline, ExxonMobil's Rovigo regasification facility, near Venice, and the GALSI pipeline, which will bring Algerian natural gas to the Italian mainland via Sardinia.

¶11. (U) The State Department has worked especially closely with Edison on the TGI project, which will link natural gas fields in Azerbaijan directly to European energy consumers. Upon its completion in 2012, TGI will bring 8 billion cubic meters (bcm) of Caspian Basin natural gas annually to Italian consumers, and will be the first natural gas pipeline to deliver Caspian Basin gas to Europe outside of the Gazprom pipeline system. TGI still faces some challenges which Quadrino and Poti may be able to comment on. First, there have been questions raised about the adequacy of Azeri natural gas production, and whether the Azeris will be able to meet the demand for natural gas from TGI and the Nabucco pipeline. Second, the companies building TGI (Edison, DEPA (Greece), and BOTAS (Turkey) entered into an agreement in July regarding the transit and pricing of Azeri natural gas via the TGI pipeline. The Azeri government objects to the agreement because it includes a "net back" pricing system which the Azeris argue will force them to sell natural gas to the TGI companies at below market prices and disclose their confidential commercial arrangements. Edison has been

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working to address these concerns. Quadrino and Poti may be able to shed light on the success of their efforts to address Azeri concerns, which are important because they may set the tone for future negotiations for Trans-Caspian natural gas contracts.

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